

Securities and Exchange Commission (SEC) Actions to Mitigate the Impact of COVID-19

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The [U.S. Securities and Exchange Commission](#) (SEC) has broad regulatory authority over significant parts of the securities industry, including stock exchanges, mutual funds, investment advisers, bonds, publicly traded companies, and brokerage firms. The coronavirus (COVID-19) pandemic has affected various areas within the SEC's regulatory ambit. This Insight highlights selected tools that the agency has used to help mitigate those impacts.

Disclosure Relief

A foundational goal of federal securities laws is protecting investors, an objective significantly addressed through required periodic [disclosure](#) of information by SEC-registered market participants and publicly traded companies.

On March 25, 2020, the SEC issued [guidance](#) to publicly traded companies on the potential implications of COVID-19 for their periodic mandatory SEC disclosures. The guidance indicated the agency was continuing to monitor how companies are reporting the impact of COVID-19, including the challenges of accurately forecasting the virus's likely effect on both their industry and themselves. Nonetheless, it noted that it considered developments pertaining to COVID-19 to be material information that warranted disclosure and that companies were obligated to address such business risks despite their uncertain and evolving nature.

The aforementioned periodic public company disclosures are subject to certain SEC filing deadlines, which could be disrupted by COVID-19. In response to such concerns, on March 4, 2020, the SEC gave conditional [regulatory relief](#) to publicly traded companies for their mandatory disclosure reporting, including Forms 10-K and 10-Q, annual and quarterly disclosures. Such filings were due between March 1 and April 30. Under the relief, firms have an additional 45 days to file.

Mitigating Market Volatility or Market Disruptions

In March 2020, the COVID-19 outbreak helped end the longest bull stock market in U.S. history, ushering in a period of exceptional market volatility that has involved significant stock selloffs. Depending on the severity of an intraday decline in the broad S&P 500 stock index (7%, 13%, or 20%), the SEC-sanctioned

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[market-wide circuit breakers](#) for stock, options, and futures exchanges are designed to pause all trading across all exchanges for 15 minutes or to completely halt all trading for the balance of the trading day. These market-wide circuit breakers were triggered an historically unprecedented four times in March 2020.

In contrast to addressing market-wide volatility, another SEC-sanctioned protocol is designed to help mitigate excessive intraday volatility in individual stocks, stock options, and exchange traded funds. The circuit breaker, the [limit up limit down](#) (LULD) protocol, limits trading on individual stocks to a price range that is set at a percentage above and below the average price of a stock during the preceding five-minute trading period. Depending on various factors including whether a stock is a member of the S&P 500 or the Russell 1000 stock indices or is not a member of either, and the size of a stock's last share price, the price limit bands are 5%, 10%, 20%, or the lesser of \$0.15 or 75%. The bands double in size during the opening and closing of the trading day. If a stock's price breaches the bands and then takes more than 15 seconds to return to within their bounds, trading in the stock is suspended for five minutes. Stocks that are members of the two stock indices—generally the most actively traded stocks, and stocks whose last traded price was higher than \$3.00—are subject to narrower bands. In March 2020, LULDs, which unsurprisingly appear to have been generally [correlated](#) with the market-wide circuit breakers, [peaked](#) at 1,475 on March 18, well above their historical daily average of 11.

Mutual funds, also called open-end funds, are the most common type of pooled investment vehicle. They held about [\\$21 trillion](#) in assets in 2019. The COVID-19 pandemic has led to potentially worrisome levels of shareholder redemptions at certain funds, raising the prospect that some funds may lack adequate funding to address future redemption demands. On March 23, 2020, in response to such concerns, the SEC issued an order providing [exemptions](#) to the Investment Company Act (P.L. 76-768) to ease restrictions on fund borrowing, including interfund borrowing between funds within the same corporate family. The exemptions are to extend “until the date specified in a public notice ... and no earlier than June 30, 2020.”

Corporate Governance

Public company annual shareholder meetings give a company's shareholders an opportunity to vote on such things as the election of board members and to approve proposals that will be put before the company board by shareholders or company management. The meetings are generally regulated by state corporate law. However, the SEC regulates the proxy voting process wherein nonattending shareholders authorize other shareholders to vote on their behalf. That process and the distributed proxy materials (documents such as a company's annual report and a proxy statement, which describes the issues to be voted on) are central to the annual meeting. As part of this authority over proxy voting, the SEC has oversight over the protocol for rescheduling annual meetings. In March 2020, in response to the potentially disruptive impact of COVID-19, the SEC issued [guidance](#) informing companies that they could reschedule the meetings without having to amend their proxy materials, easing the burden of rescheduling. In addition, depending on the state laws where a company is incorporated, the guidance also permits companies to conduct “[virtual](#)” [annual meetings](#). (Laws in Delaware, where most public companies are incorporated, allow for such meetings.)

Market Surveillance

The consolidated audit trail (CAT) is a massive database currently in development that is expected to track every trade in stock and stock options. Overseen by a consortium of self-regulatory organizations (SROs), including stock and options exchanges and the Financial Industry Regulatory Authority (FINRA, the frontline regulator of broker-dealers), CAT is to enable the SEC to conduct cross-market surveillance as well as to reconstruct disruptive market

developments. In March 2020, SEC staff issued a [no-action letter](#) observing that the existence of the COVID-19 pandemic requires SROs to spend time implementing business continuity plans, diverting significant numbers of personnel from their CAT compliance enforcement obligations. Recognizing this, the letter stated that the SROs could defer the CAT enforcement obligations until at least May 20, 2020.

Author Information

Gary Shorter
Specialist in Financial Economics

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